

**GOVERNOR LINDA LINGLE'S REMARKS
OCCIDENTAL UNDERWRITERS 75TH ANNIVERSARY EVENT**

Tuesday, August 12, 2008

A couple of people have asked me tonight about how the Hawai'i economy is doing so I wanted to touch on that a little bit. I'm going to share with you some of what you can expect for the next couple of years – some of the challenges that we face. And I want to put it into the context of Occidental Underwriters, because certainly Occidental founder L.T. Kagawa faced challenges, but he did not just make the most of them he turned those challenges into great, great opportunities – and our state can do the same.

We know that this a challenging time, not just for our nation, but for Hawai'i specifically. Oil prices have had a huge impact on families' cost of living and gasoline and electricity costs. Also, with the airlines and their ability to bring people here. The sub-prime mortgage impact in California, our main source of tourism marketing has hit hard as well. Tight credit markets, across the nation, even outside the nation are impacting us as well.

Occidental has weathered these up and downs. And so does our state. They know the imperative of being flexible, and not hunkering down but looking for opportunities even in challenging times.

Now there is some good news and it's about the fundamentals of our state. And I want to share some of this good news with you.

There are national rankings of states, whether or not they are a good place to do business, whether or not the economic foundation is solid, whether or not they are headed in the right direction. We certainly are.

Forbes magazine, in 2002, said this about doing business in Honolulu, they called it the "equivalent to suicide." That's a pretty strong statement to make. And in 2006, when they ranked the 50 states, they ranked us 42nd as a good place to do business. By 2007, we had gone from 42nd to 37th and this year, in the rankings that just came out this past month, we are now ranked 27th in the country.

Another objective ranking comes from the Milken Institute, which ranks states in technology and science index. We have climbed 11 spots. In 2004, we were ranked 39th. This year, we were ranked 28th and the report said we have made remarkable improvements. They commended us on our focus on attracting small business, especially targeting clean energy and life sciences.

So there is good news. At the same time, we are trying to impact the short-term economic results in our state. I want to mention a six-point plan that we use to do that.

Number one is to continue to invest heavily in our infrastructure. This is vital to our construction industry and to the overall economic engine of the state. We've released millions of dollars for new schools, for construction backlog at University of Hawai'i campuses statewide, and we want to take in two important modernization plans.

One, a six-year harbors modernization plan worth \$615 million in construction – all paid for with money generated from harbor users. And a plan to modernize the airports statewide is a \$2.3 billion, 12-year plan and again, all of that paid for by fees, leases, and landing fees at the airports.

So continuing to invest in infrastructure is important for us. As I mentioned, it's not a time to hunker down, but to spend on the basics – those things that will enable business to develop on cycle terms.

The second thing is to lower fees and to generate tax relief for people. We've been reducing fees for people who register their businesses online. The Department of Commerce and Consumer Affairs recently announced discounts for applicants for online renewals. We've saved businesses over \$6 million by filing online reports and registering businesses online and we've worked to advance business-friendly legislation. Last year, we finally were able to get – and it went into effect on January 1 – we were able to get the Legislature to lower the unemployment insurance tax rate.

Now, this was critically important because we had the highest threshold for unemployment insurance tax in the nation, but we had the lowest rate of unemployment in the nation. What had occurred is that we built up a fund of \$600 million with very low unemployment and the federal

government restricts our ability to use that money for anything other than unemployment insurance payments.

So the Legislature agreed, and we implemented it on January 1 of this year, a three-year savings. It affects every business in the state. Over three years, businesses will save \$151 million because we lowered the unemployment insurance threshold. So, every single person in here who's in business is positively affected by that.

Besides lowering fees and taxes, and continuing to invest in infrastructure, the third point is to attract outside investments, especially in the area of renewable energy. We're trying to leverage our state's natural competitive advantage in this area and alternative energy is a natural for us. We even made the *Wall Street Journal* two months ago in an article about how we're switching from only being sun and surf to a place that is a leader in renewable energy.

We also are a leader in the area of captive insurance industry. Act 190 was signed into law that amends the state's capital insurance statute this year to secure our place as a premier captive insurance domicile in the Pacific Rim.

Fourth, and this is going to be very difficult in the near term, is tourism promotion and marketing. This is a very difficult time to bring more tourists here, but we have to make this effort. In my opinion, we have to narrow our marketing efforts and focus on high-visitor states like California. In the long-term, Korea will be important because of the visa waiver. China will be important for obvious reasons that people are having tremendously increased incomes, and there are so many people in China. It's very tempting to focus right now over there, but in the immediate term, the best way for us to get tourism back on track is to go to the places that have the closest people who are used to going to Hawai'i, where it is the least expensive to get here.

We are planning a trip to China and Korea this year to make certain that they know we are here; we do want them to go to Hawai'i in the future; but that this is where we should be spending most of our money right now.

Fifth is an innovative use of federal money and sixth is to create additional partnerships.

A recent example is how our Department of Human Services has obtained federal support for hospitals of \$175 million since 2005 that we were not receiving prior to that. The Department of Labor has received nearly \$6 million in national grants just this year to assist displaced workers. And we received \$1 million from NASA to hold our regional robotics competition for students across the state.

I had a Cabinet meeting this morning to talk directly with directors about the challenges we face over the next two years.

You probably know that we have a group of citizens, mostly economists, which make up the Council of Revenues.

They meet four times a year, and they let us know how much money we're going to have to spend in the years ahead. They do it for a six-year time horizon, and that is because by law, I am required to send to the Legislature a six-year plan that has to balance each one of those six years.

Since May of 2007, the Council has reduced the projection by \$2.7 billion fewer revenues that we have to spend in the state. Just between May 29 and July 31 of this year, they reduced projected revenues by \$900 million as I began budget preparations for the next two-year budget.

So it is going to be a huge challenge for me and our departments to continue to maintain public services at a high level that you'd expect them because we were committed not to raise taxes.

And it will be very challenging for us. And I talked to the Cabinet about looking for opportunities during challenging times.

That's exactly what L.K. Kagawa did. That what private business has to do, and that's what government has to do as well.